

## Message Text

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22

ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 CU-02 USIA-06 /028 W

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R 161040Z AUG 76

FM AMEMBASSY PRAGUE

TO SECSTATE WASHDC 822

INFO USDOC WASHDC

AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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VIENNA FOR EWTDO

E.O. 11652: N/A

TAGS: EALR, BEXP, CZ, SCUL, OEXC

SUBJECT: REPRESENTATION OF WESTERN FIRMS IN CZECHOSLOVAKIA

SUMMARY:

1. EMBASSY HAS RECENTLY OBTAINED FRESH INFORMATION ON STATUS OF REQUESTS BY WESTERN FIRMS TO ESTABLISH LOCAL REPRESENTATIONAL OFFICES IN CONTEXT OF CSCE BASKET 2 IMPLEMENTATION AND A POSSIBLE REORGANIZATION BY CZECHOSLOVAK AUTHORITIES OF PRESENT SYSTEM UNDER WHICH CZECHOSLOVAK INTERPRISES ACT AS REPRESENTATION AGENTS FOR OVERSEAS FIRMS. END SUMMARY.

2. APPROXIMATELY 40 APPLICATIONS (NONE FROM U.S.) FOR PERMISSION TO ESTABLISH LOCAL REPRESENTATIONAL OFFICES HAVE BEEN FILED TO DATE BY WESTERN FIRMS UNDER TERMS OF DECREE ISSUED IN LATE 1975. HOWEVER, MERCL, MINISTRY OF FOREIGN TRADE, RECENTLY TOLD US AGAIN THAT NONE

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HAS YET BEEN APPROVED. APPARENTLY MAIN REASON FOR

EXTENDED DELAY IS INABILITY OF CZECHOSLOVAK AUTHORITIES TO AGREE ON APPROPRIATE TAX RATE FOR SUCH OFFICES. OTHER FACTORS CONTRIBUTING TO DELAY INCLUDE GOC'S FAILURE TO WORK OUT IMPLEMENTATION MEASURES WITH LOWER LEVEL OFFICIALS PRIOR TO ANNOUNCING DECISION AND SERIOUS LACK OF OFFICE SPACE, HOUSING AND QUALIFIED PERSONNEL WHICH WESTERN FIRMS WOULD REQUIRE IN PRAGUE. WE HAVE ALSO HEARD THAT A DECISION ON WHETHER OR NOT TO GO AHEAD WITH BUILDING PROPOSED WORLD TRADE CENTER, A MAJOR BUILDING PROJECT WHICH WOULD HOUSE SUCH OFFICES, WILL NOT BE MADE FOR SEVERAL MORE MONTHS. MERCL EVEN HINTED THAT PROJECT MAY BE JUNKED DUE TO PROBLEMS WHICH BESET LOCAL CONSTRUCTION INDUSTRY. IF, HOWEVER, PROJECT IS BUILT, CZECHOSLOVAKS MAY HAVE DIFFICULTY FINDING ENOUGH WESTERN FIRMS WILLING TO OCCUPY IT. THEY MIGHT HAVE TO "INVITE" FOREIGN FIRMS TO ESTABLISH OFFICES HERE, IMPLYING THAT LOCAL OFFICE WOULD BE A PRE-CONDITION IF A FIRM WISHES TO MAINTAIN ITS COMMERCIAL POSITION IN CZECHOSLOVAKIA. CZECHOSLOVAKS MAY CONSIDER THESE OFFICES AS FUTURE SOURCE OF HARD CURRENCY AND MIGHT REQUIRE RENTS, SALARIES AND OTHER OFFICE RELATED EXPENSES TO BE PAID IN OVERSEAS CURRENCIES. OUR UNDERSTANDING IS THAT APPROXIMATELY HALF OF THE FIRMS WHICH HAVE ALREADY APPLIED ARE JAPANESE, THE OTHER HALF CONSISTING OF WESTERN EUROPEAN FIRMS. SINCE THE RESPONSE TO DATE HAS BEEN LESS THAN OVERWHELMING, IT IS CONCEIVABLE THAT WESTERN FIRMS MAY HAVE TO BE PRESSURED INTO ESTABLISHING PRAGUE OFFICES, IF THE REGIME DECIDES TO BUILD WORLD TRADE CENTER. WEST GERMAN ECONOMIC COUNSELOR (PAKOWSKI) TELLS US THAT FRG FIRMS HAVE BEEN LARGELY DISINTERESTED IN OPENING PRAGUE OFFICES BECAUSE THEY CAN SERVE LOCAL MARKET MUCH MORE EASILY BY PERIODIC VISITS FROM THE FEDERAL REPUBLIC.

3. RELATED TOPIC IS RUMORED REORGANIZATION OF PRESENT SYSTEM UNDER WHICH FOREIGN FIRMS ARE REPRESENTED LIMITED OFFICIAL USE

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BY CZECHOSLOVAK ENTERPRISES. SUPPOSEDLY, MFT AND OTHER RESPONSIBLE ENTITIES ARE CONSIDERING LOWERING NUMBER (NOW 10) OF AGENCIES HERE IN ORDER TO REDUCE PONDEROUS BUREAUCRACIES THEY NOW SUPPORT. IT IS ALSO POSSIBLE THAT AUTHORITIES WILL RE-DEFINE SECTORIAL RESPONSIBILITIES OF THESE ENTITIES SO THAT INDIVIDUAL AGENCIES WOULD NOT BE HANDLING SO MANY COMPETITIVE ACCOUNTS. COMMENT: OUR IMPRESSION IS THAT

THE PRESENT 10 AGENCIES ARE FAR FROM EFFECTIVE BY  
WESTERN STANDARDS AND THAT MOST OF THEIR WESTERN  
CLIENTS ARE UNHAPPY WITH SERVICES THEY RENDER. SOME  
SORT OF STREAMLINING OF THIS SYSTEM IS OVERDUE, BUT  
WE DO NOT EXPECT ANY DRASTIC CHANGES IN THE NEXT FEW  
MONTHS.  
BYRNE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN TRADE, FOREIGN INVESTMENTS, TAX RATES, BUSINESS FIRMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 16 AUG 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** KelleyW0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Document Unique ID:** 00  
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**Previous Handling Restrictions:** n/a  
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**TAGS:** EALR, BEXP, SCUL, OEXC, CZ, CSCE  
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